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Letter dated 27 January 2006 from the Chairman of the Security Council Committee established pursuant to resolution 1373 (2001) concerning counter-terrorism addressed to the President of the Security Council

The Counter-Terrorism Committee has received the attached fifth report from Hungary submitted pursuant to paragraph 6 of resolution 1373 (2001) (see annex). I would be grateful if you could arrange for the present letter and its annex to be circulated as a document of the Security Council.

(*Signed*) Ellen Margrethe **Løj**
Chairman
Security Council Committee established pursuant to
resolution 1373 (2001) concerning counter-terrorism

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Annex

Note verbale dated 11 January 2006 from the Permanent Mission of Hungary to the United Nations addressed to the Chairman of the Counter-Terrorism Committee

The Permanent Mission of the Republic of Hungary to the United Nations presents its compliments to the Committee and has the honour to submit the report of the Republic of Hungary in response to the Chairman's letter dated 11 October 2005 (see enclosure).

Enclosure

Fifth report of Hungary to the Counter-Terrorism Committee on matters raised in the Chairman's letter of 11 October 2005

1.2.

The Hungarian FIU is situated within the framework of the National Bureau of Investigation, Economic Crime Department, called as Anti-Money Laundering Unit.

It is a police type of FIU, and besides analyzing suspicious transaction reports, its task is to conduct open and covered investigations. Moreover, FIU has competence in other activities, such as: on-site control of professions without any supervisory authority, conducting special procedures in case of accounts that are frozen on the suspicion of financing terrorism.

The staff of the Anti-Money Laundering Unit consists of 42 persons (19 police officers, 7 civil servants, 16 public officers).

Qualifications:

University or college degrees: 28 persons

Faculty of Law:	6 persons
Police Academy:	17 persons
Faculty of Economics:	7 persons
Faculty of Philosophy:	1 person
Faculty of Technical Sciences:	2 persons
Military Academy:	2 persons

Number of degrees:

1 degree:	19 persons
2 degrees:	6 persons
3 degrees:	1 person
High school education:	9 persons
Language exams:	19 persons
Basic level:	6 persons
Intermediate level:	15 persons
High level:	5 persons
2 languages:	7 persons
1 language:	12 persons

Studying at the moment at university or other grades of education:

Police Academy:	2 persons
Faculty of Economics:	4 persons
College of Modern Business Science:	1 person
Faculty of Law:	1 person

The department utilized a software called "Money" between 1994 and 2005, but this was only able to recognize data.

The new program called "MonSter" was set up on 1st January 2005 and it gives the possibility to search and to manage database for statistics.

1.3.

Both the FIU — Anti-Money Laundering Unit (Economic Crime Division) and the CTED - Counter Terrorism and Extremism Department (Criminal Investigations Division) are units of the National Bureau of Investigation (NBI). The director of the NBI reports to the chief commissioner of the national police. The staff of the NBI consists of police officers with equal rights to other police forces within the country, but with exclusive competence regarding certain serious crimes, e.g. terrorism and money laundering. Their investigative tools include all overt and covered techniques, open and secret operations and procedures. These departments maintain separate, operational databases and direct international communication channels of their own profiles. In suspicion of the crime of financing terrorism, however, the Money Laundering Department cooperates closely with the Counter Terrorism and Extremism Department.

1.4.

Alternative remittance systems like hawala are prohibited financial activities. These activities are criminalized according to Article 298/D of the Act IV of 1978 on the Criminal Code.

1.5.

The Act XV of 2003 on the Prevention and Impeding of Money Laundering (AML Act) lays down which persons and entities are subject of Anti-money Laundering and Combating Financing of Terrorism (AML/CFT) rules. The scope of the AML Act covers both the financial service providers and non-financial service providers, which follow the activities set out by the FATF standards. The AML Act encompasses intermediaries in the financial system such as notaries, auditors and tax consultants.

Article 1 of the AML Act:

(1) This Act shall apply — within the territory of the Republic of Hungary — to

a) financial service or auxiliary financial service providers,

b) investment service, auxiliary investment service or investment fund management service providers,

c) insurance, insurance brokerage or insurance consulting service providers,

d) persons engaged in commodity exchange activities,

e) persons engaged in postal money transmission services, postal money remittance, acceptance or delivery of domestic or international postal money orders,

f) persons engaged in activities related to real estate transactions,

g) persons engaged in audit activities,

h) persons who undertake accounting (book-keeping), tax consultancy, chartered tax consultancy, tax advisory activities under commissioner, or professional services contracts,

i) persons who operate casinos,

j) persons who trade in precious metals, precious stones, goods made out of either jewelry, cultural assets, works of art, or sell such assets in auctions or as commission agents,

k) persons who operate voluntary mutual insurance funds,

l) persons who work as lawyers or notaries,

m) persons who are customers of the entities specified in subparagraphs a)-l) (hereinafter service providers),

n) persons who are service providers, including directors, employees or family members actively engaged in such businesses.

1.6.

The UN Security Council's resolutions on freezing of terrorist assets [UNSCRs 1267(1999) and 1373(2001)] are implemented by the directly enforceable and directly applicable European Community's regulations (881/2002, 2580/2001). Acting not in compliance with these regulations is criminalized pursuant to the Criminal Code (Article 261/A.) As the UNSCR 1373 requires national freezing mechanism in respect of restrictive measures regarding terrorist assets, the Act LXXXIII of 2001 authorizes the Government to introduce restrictive measures by issuing governmental decrees against terrorists, who are not on the list of EC regulations.

In the 2005 Report on Observance of Standards and Codes (ROSC), using the AML/CFT Assessment Methodology of the FATF, the IMF/WB/Moneyval team of experts summarises the activities of the Hungarian Financial Supervisory Authority as follows:

"The HFSA was established on 1st April 2000 as a single supervisory body of the financial sector. Hungary's legal system does not empower the HFSA to issue legally binding rules and regulations to the financial sector. However, the HFSA has the power to issue guidelines, recommendations, and model rules for the financial institutions, supported by its power to invoke sanctions for noncompliance. The HFSA also plays an important role along with the National Bank of Hungary (NBH) in the drafting of a legally binding Decree issued by the Ministry of Finance (MoF).

The Recommendation of the President of the HFSA 1/2004 provides that financial institutions should pay increased attention to the lists of terrorists and terrorism organizations and that they should immediately report to the competent investigation authorities in case of suspicion of FT.

The Recommendation of the President of the HFSA 1/2004 on the prevention and impeding of terrorism and money laundering calls upon service providers to monitor the lists of organizations and persons related to terrorism. Also, it advises them reporting to the competent investigation authority "whenever there is suspicion of a financial transaction which supports terrorism."

The HFSA document referred to above in the IMF WB Moneyval ROSC of 2005 is publicly available on the website of the HFSA (www.pszaf.hu) in the Anti-Money Laundering chapter both in Hungarian and in English. Article 1.4 ("Blocking the funds financing terrorism") contains among others the following provisions:

"The lists of organizations and persons related to terrorism must be monitored continuously. Increased attention needs to be paid to signals received from the EU, UN Security Council and NATO Member States. Transactions should primarily be examined in terms of whether they are related to individuals, countries or organizations contained in the specific international lists."

The relevant lists published also on the website of the HFSA under the title of "Terrorist list" are the following:

- EU lists
- UN lists
- Executive order 13224 of the President of the United States of America.

1.7.

As for the training of the "judiciary", the Office of Overseas Prosecutorial Development, Assistance and Training of the US Department of Justice in association with the ILEA organized a training on AML/CFT issues for prosecutors and judges between 5th and 9th September 2005.

Regarding the subject of economic crimes there are trainings concerning money laundering at the Public Prosecution every year. In 2005 an international seminar on related subjects was organized with the participation of public prosecutors. Questions concerning money laundering are included in the training plan prepared for trainee and assistant prosecutors.

1.8.

The non-profit sector in Hungary carries out vital humanitarian and other much needed public work. Although there has been only very little evidence in recent years that the Hungarian non-profit organizations have ever been exploited for the financing of terrorism and for other kind of criminal abuse, Hungary is fully aware of the vulnerabilities of this sector to these criminal offences.

Hungary agrees with the principles set out by the British Presidency of the EU, which can be deducted from FATF SR VIII. It harmonizes with the position of Hungary on this matter, in regard to the Government Resolution 2221 of 2005 (X.17.). This piece of legislation sets out the review of the legislation in force concerning the Hungarian non-profit sector as an urgent responsibility, which can be considered to be the first step towards the full compliance with FATF SR VIII.

Similar to all the other Member States of the European Union, Hungary recognizes that the Non-profit (NPO) or Non-governmental (NGO) sector is very significant, and its value is often recognized by favorable taxation privileges and other state support. Unfortunately, because of the willingness to donate money to NPOs and NGOs is relatively low among the Hungarian citizens, NPOs and NGOs are more likely to finance themselves from State budgetary support. The State budget money is allocated on a contractual basis and the relevant laws and regulations on financial control ensure that those funds are spent on the contracted activities. A special kind of regulation is in force to encourage

Hungarian citizens to donate to philanthropic organizations. The essence of this provision is that Hungarian tax payers are entitled to offer 1 percent of their income tax to non-profit (charitable) organizations. The recipients of these "1 percent" payments must report on how they spent those funds and are responsible to the local tax authorities for false reporting.

All NPOs must register, like any other enterprises, either with the Court of Registration and present — in addition to the basic information required of all legal persons — declarations about the nature of their nonprofit activities. Their annual reports, including revenues, expenses and utilization of budgetary subsidies, must be published and made available to the public.

Prosecutors within the Civil/Administrative Division of each county's public prosecution are responsible for ensuring that local NPOs are operating in conformity with their charters and with their declared public welfare functions. They receive notification of all new applications, and are entitled to challenge a registration they find inappropriate. These prosecutors also conduct ongoing supervision of the NPOs through targeted on-site examinations.

1.9.

Principles of Terrorist Threat Assessment at the Hungarian Customs and Finance Guard

Globalization does not only bring benefits but also exposes our everyday life and increases our vulnerability to terrorism. Since terrorism has a global nature, efforts to fight against it must have global indications, too.

Hungary is a member of several international control regimes and treaties: The Wassenaar Arrangement, the Missile Technology Control Regime (MTCR), the Nuclear Suppliers' Group (NSG), the Australia Group (AG) and the Chemical Weapons Convention. According to the regulations of these non-proliferation regimes, Hungary harmonizes its export policy to prevent the development of severe military technology potentials endangering world peace and/or regional stability.

One of the main tasks of the Hungarian Customs and Finance Guard is the customs control of freight and passenger traffic crossing the state border and the prevention, detection and investigation of financial and other related crimes which are referred to its competency by the Act XIX of 1998 on the Criminal Procedure Code. The Hungarian Customs and Finance Guard has key responsibility in preventing import and export of unlicensed goods, investigating criminal acts, and in taking appropriate action, including the bringing of criminals to justice.

Based on the principle of general freedom of foreign trade, Hungary has a wide-ranging system of legal provisions that can be used to control transfers of sensitive material. These provisions include prohibitions and the obligation to obtain licenses for the export and transport of certain goods.

Furthermore, the customs administration is going after the offenders of intellectual property rights and other measures, such as the protection of national, human- veterinary, and phitosanitary, economic and environmental interests.

These are also priority areas of the European Union's external border control policy.

Hungary places emphasis on the idea of comprehensive enforcement co-operation in Europe, developing and maintaining appropriate and effective border control and law enforcement efforts in order to detect, deter, prevent and combat criminal activities and irregularities. The co-operation would include international collaboration, when several foreign stakeholders' joint efforts are needed to counter illicit trafficking and brokering in such items in accordance with national legislation. Consistency with EU and relevant international legislation is also of high importance.

Actions taken in accordance with the UN Security Council resolution 1540 (2004):

- European Community Customs Code (EC 2913/92) Article 14. Power to require information in relation to goods imported or exported.
- Act XIX of 2004 on Hungarian Customs and Finance Guard Article 5. Power of Customs to stop and search vehicles/vessels suspicious of carrying prohibited goods.
- Act XIX of 2004 on Hungarian Customs and Finance Guard Article 5, European Community Customs Code (EC 2913/92) Article 68, indent B. Powers to examine goods and take samples for the purpose of verifying customs declaration.
- Act XIX of 2004 on Hungarian Customs and Finance Guard, Article 5. Power of Customs to arrest.
- Act IV of 1978 on the Criminal Code, Article 261/A. Breach of obligation under international law, committed in connection with trafficking in fire arms, ammunition, explosives, destructive devices or an apparatus serving for the utilization thereof or of any product designed for military use.

Hungary was among the first states that joined the Non-Proliferation Treaty and we are a contracting party to the relevant international convention on illicit movement of radioactive materials and nuclear safety.

The Hungarian Customs and Finance Guard — with the assistance of the EU's Phare Program and the Ministry of Environment Protection — have worked out a program on the detection of dangerous materials. In the framework of this program, all border crossing points are equipped with stationary monitoring systems, personal radiation monitors and portable survey meters.

Details of border security:

Customs control has been reinforced at external border crossing points (BCPs) as regulated by the provisions of the Schengen Treaty: among others, mobile control units are on duty 24/7 performing in-depth controls at internal borders. It is probably not an overstatement to say that Southern and Eastern Hungarian borders are the most sensitive external land borders of the Community. A general border crossing development programme has taken place since 1995 with the goal of reaching compliance with the Schengen requirements.

While working out the development concept of border crossings, Hungary decided — in line with EU standards — to establish protected car parks for trucks carrying hazardous freight. To be able to handle the chemical/biological incidents at the frontier, we have two professional sets with DragerMan Teammaster pro chemical protection suit with the necessary DragerMan PSS 90D

compressed air respiratory protection equipment. We have also distributed to our customs officers 200 personal masks and 100 protection suits. 35 customs officials attended ADR/ADN courses.

The Hungarian Customs and Finance Guard has a detailed Crisis Management plan for the case of a direct terrorist incident.

Another major point in the border crossing development plan was to supplement the entry side of the control by automatic devices for detecting nuclear and radioactive materials since stopping the illicit traffic of radioactive and nuclear materials at frontiers is an important task of the customs.

Within the scope of the above mentioned Phare programmes (Sub-Program on the detection of dangerous materials of Phare Customs Modernization Program), Hungary acquired:

- 21 stationary monitoring systems
- 68 hand-held survey meters (Target Fieldspec and Eberline FH40TG)
- 107 personal dosimeters (Polimaster)
- 4 gamma spectroscopes (Target Nanospec)

The costs of the program:

- EUR 500, 000 from EU support
- EUR 420, 000 from the Hungarian national budget

Additionally, the Ministry of Environment and Water joined the program on detection of dangerous materials and donated 20 more stationary monitoring systems for BCPs to the Hungarian Customs and Finance Guard.

As of today, HCFG has 41 stationary monitoring systems, which enable it to cover all BCPs through which international freight traffic flows. Systems formerly used at common borders with Austria, Slovenia and Slovakia are planned to get relocated to the passenger traffic control areas at current Community external borders.

Our BNS-94 stationary monitor systems — product of the Hungarian GAMMA Technological Inc. — are able to detect radioactive sources or nuclear materials hidden in a consignment. Should means of transport be covered with radioactive dust or part of the vehicle itself is contaminated, this tool is the apt solution for detecting these kinds of irregularities, too.

Obviously, the system is sensitive for natural radiation as well. Its alarm goes off when scanning consignments consisting of products made of rock or minerals with natural radium or thorium. In such cases no customs measures are needed.

The BNS-94 stationary monitor system is a state-of-the-art equipment linked directly to a computer displaying important information for the customs officer. The computer runs a software called Intelligate developed specially for customs officers by experts of GAMMA in co-operation with the Hungarian Radiation Protection Authority. This is an extremely handy tool for customs detection purposes and is able to display right factors on which further customs controls can be based. Should the alarm go off, the computer opens different communication windows and informs the user of the procedure proposed.

If a customs officer finds evidence that illicit trade of radioactive of nuclear material is detected, he/she has to:

- isolate the cargo to provide safety measures
- make measurements with hand-held equipment
- inform the competent radiation protection expert
- withhold the lorry driver and other persons escorting the cargo

Based on the findings of the radiation protection expert, the customs officer can refuse the entry of the consignment into the country or even initiate the criminal procedure.

As for the criminal procedure, customs offices have to report the case in question to the police authority. A governmental decree has been issued to co-ordinate the actions of authorities involved if radioactive or nuclear material is found or seized at BCPs.

Until today, the Hungarian customs did not have to initiate criminal procedure for reasons of smuggling radioactive or nuclear material. However, with the participation of the National Atomic Energy Agency, a simulation exercise was carried out successfully at one of our border crossing station.

In case of a radiological/nuclear incident, the National Research Institute for Radiobiology and Radiohygiene is at the helm of actions.

Risk Assessment

The customs authority utilizes a computerized system at the borders of Hungary, which — besides data processing — assists risk analysis. The complex data (consignor, consignee, country of destination, nature of goods, shipping company, and means of transport) is analyzed and the details of customs control are defined. Management level customs officials have the power to alter the level of control into a stricter direction. Transporters and means of transport having previous record of offences, as well as sensitive countries of origin, are included into the database of this programme.

An internal professional guidance includes a special control system to counter terrorism.

For this reason, all export consignments, passengers and their luggage traveling to the listed countries are subjects to a detailed customs control to be exercised before the consignment or the person leaves the territory of the country via the customs office on the BCP. Should any feature of the consignment not allow the carrying out of such customs control (chemicals / radioactive materials), this kind of customs procedure is to be conducted at inland customs offices in the course of the export clearance.

In case of transit, detailed customs control has to be performed regarding consignments to Serbia and Montenegro, Croatia, and Ukraine.

Photocopies of documents of these consignments (except personal documents of the passengers) have to be sent to the Borders and Duty Department of the HQs of the Hungarian Customs and Finance Guard for revision.

The Hungarian Customs and Finance Guard uses the TRACKER system, based on U.S. software. It is a low-cost tool that does not require large staff, helps the licensing procedure, aids decision process, provides for confidentiality, offers the possibility of paperless office and provides a potential link with counterparts in other countries.

3 piece-mobile x-ray equipments were procured and installed last year with Phare support. These are easy to install and can be used to take x-ray images of the consignment of the whole truck.

Hungary also has experience regarding the two X-ray equipments installed in vans, which were received from the U.S. Government as technical assistance. They are being used successfully for luggage control at Ferihegy International Airport.

A drug and explosives analysis equipment also supports effectively the job of customs officers at Ferihegy International Airport, provided by the operator of the airport, which is able to identify particles of such prohibited materials carried by persons.

The Hungarian customs administration believes that personal experience, intuition, qualification, skills and training of customs officials working at BCPs can not be replaced entirely by technical equipment or high-tech IT systems: both of them play an equally important role.

As for military products, there is a three-level licensing procedure: after granting a general activity license, negotiating on a case-by-case basis and trade licenses are needed for the export and import of the products. The licenses are issued by the Department of the Hungarian Trade Licensing Office based on the advance approval from an inter-ministerial committee. The decision of the committee is preceded by the proposal from the working group of the committee. The Hungarian Customs and Finance Guard is a keen participant of the activities of both bodies.

Should the control of a consignment of internationally controlled products and technologies emerge, customs authorities perform throughout customs control.

The customs authorities send copies of the licenses relevant to the customs procedure, together with the customs' copies to the Borders and Duty Department of the Hungarian Customs and Finance Guard, where the paperwork is carefully revised. If the result of the revision shows any legal abuses, the department executes an enquiry at the operator's premises with the experts of the Office of the Hungarian Trade Licensing Office.

The customs offices executing customs control of internationally controlled products and technologies are obliged to carry out an on-the-site control at least once a year at the premises of operators involved in foreign trade of such goods.

In the event of an unlicensed export, seizure of goods takes place, pursuant to the regulations of the Criminal Procedure Code (e.g. stopping the trucks and unloading the goods).

Customs in the fight against money laundering

According to the provisions of Act XV of 2003 on the prevention and blocking of money laundering, every person crossing the border of the Republic of Hungary is obliged to inform the customs authority of cash and bonds exceeding HUF 1,000,000 (approximately EUR 4000) in his/her possession. Failing to comply with this obligation leads to prosecution.

If facts or data give rise to the suspicion of money laundering, customs will immediately identify the person concerned and inform the police. This information is of a secret nature; the witness shall remain unknown to third parties.

Experience regarding the activity of mobile groups in border zone control

Significant rules of the Schengen co-operation became part of the Community legislation with the Amsterdam Convention on 1st May 1999. Controlling traffic at internal borders has been lifted, while customs controls at external borders have been strengthened to EU standards. It is to be noted that Hungary — just like the other new Member States in the region — is only a *de iure* member of the Schengen Convention; *de facto* membership to the Schengen area is dependant on getting SIS II up and running, and also on the act of the Commission's resolution.

That is the reason why, in the course of the international fight against terrorism, the control method applied by the Border Zone Control Units is as follows:

- Control of persons, vehicles and consignments,
- Control of "Cabotage" transports,
- Control of internationally controlled products and technologies, like nuclear products and technologies, missile-technology products, products falling under the Agreement on the prohibition of chemical weapons, coercive, criminal detective, and specific intelligence devices,
- Co-operation with the Border Guard and the Police in the fight against illegal migration and other associated infringements,
- Control of traffic of pyrotechnical devices,
- Control of traffic of firearms, ammunition, gas- and warning weapons, explosives, devices dangerous for the public security, sports weapons,
- Control of traffic of cultural objects,
- Prevent and detect the illicit traffic in human beings, human organs and tissues,
- Fulfilling the tasks and controls set up in the Act on money laundering and its prevention,
- Organization of and participation in joint actions with the Police, Border Guard, Traffic Supervision, Disaster-protection, State Public Health and Health-Officer Service, Tax and Financial Control Office, and the Consumer-protection Supervision,
- Blocking illegal traffic of narcotic drugs and psychotropic substances,
- Control and detection of legal and illegal trade in firearms, ammunition,
- Control duties carried out in relation to legal and illegal trade in excise products.

Passenger's data

The implementation of the EU Council Directive 2004/82/EC (29th April 2004) on the obligation of carriers to communicate passenger's data is in its final stage in Hungary. According to Article 7 of the Directive, Member States shall take the necessary measures to comply with its regulations not later than 5th September 2006. The draft of the national law, which adopts Directive 2004/82/EC is under administrative harmonization at the moment will probably be discussed by the Parliament in early 2006.

Acquisition and possession of firearms

The Council Directive 91/477/EEC (18th June 1991) on control of the acquisition and possession of weapons has full implementation in Hungary. The adopting national laws are Act XXIV of 2004 and Government Decree 253 of 2004.

1.10.

As Hungary is a devoted participant of the fight against terrorism, several bilateral agreements have been conducted with other States on co-operation in the fight against organized crime, illicit trafficking of drugs and terrorism in the last decade. Among others, we have bilateral agreements in this field with Albania, Austria, Bosnia and Herzegovina, Bulgaria, Cyprus, the Czech Republic, Estonia, France, Greece, Croatia, the United Kingdom, Ireland, Israel, Jordan, Serbia and Montenegro, Kazakhstan, Kuwait, Poland, Latvia, Lithuania, Italy, Romania, Slovenia, Slovakia, Spain, Sweden, Turkey, and Vietnam.

1.11.

Hungary is an active member of Moneyval, which is the European FATF-style Regional Body for non-FATF member European States. In the first half of 2005 an IMF/World Bank/Moneyval joint assessment was conducted in line with the FATF standards and methodology. The final assessment report was adopted by the Moneyval plenary meeting at the beginning of June 2005. The final report is available on the following Moneyval website: http://www.coe.int/t/e/legal_affairs/legal_co-operation/combating_economic_crime/money_laundering/Evaluations/Reports_summaries.asp#TopOfPage